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The Air India Fiasco

New Delhi can save its carrier by privatizing it.

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Madison, Wisconsin isn't the only place union shenanigans are exposing cracks in the state sector. The pilots' union at India's public-sector airline, Air India, last week threatened to go on strike starting today unless its demands for better pay and working conditions are met. But instead of taking a tough Madisonian stance, India's avuncular Minister of Civil Aviation Vayalar Ravi insists that matters of pay and working conditions are "between me and my children."

The real problem isn't what the union is demanding. It's that India has an airline that is run by politicians and hence can be milked by various interest groups. Such a firm can't compete against the private sector. Air India has built a reputation for poor service and long delays, as well as other absurdities. In a 2009 episode, pilots got into a fist fight with the cabin crew; in another tale that year, a rat was found on a Toronto-bound aircraft.

Contrast that with the new airlines set up after New Delhi deregulated the industry in the 1990s, which have built a customer base by offering excellent value for money. In the face of this competition, Air India's market share has fallen, despite charging the lowest fares courtesy of the taxpayers.

Low prices and fewer customers don't make for good business, and the airline has been in the red for the last four consecutive years. It racked up losses of 55 billion rupees (\$1.22 billion) for the most recent accounting year ending March 2010 and stood indebted for some 400 billion rupees at the end of calendar 2010. Losses are expected to hit 70 billion rupees for 2010-11.



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At the other end of this profit and loss statement are the airline's high costs. Its political masters are quick to point to high fuel prices in 2008 as well as big capital acquisitions before that. Yet private players also experienced the same business cycle. Their combined losses were lower than Air India's that year.

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To be fair, one specific difference is Air India's botched 2007 merger with its sister state-owned carrier, Indian Airlines. A parliamentary panel has argued that the merger may have been flawed from the start. Still, a former aviation minister admitted that "vested interest in the unions," among other factors, worked to "defeat the merger."

The national carrier has been a plaything for countless politicians and bureaucrats for decades. Mounting losses in 2009 may have forced the government to promise to keep its hands off: It appointed a respected bureaucrat to turn the firm around and brought in independent directors and management from the outside. But old habits die hard. In the past month, one of those directors has offered to resign and all the outside executives have either been fired or have quit. On Feb. 28, one executive resigned after telling a local

newspaper: "When you call someone from outside, let him work. The government should control but let him work. It should not be involved in day-to-day operations."

The biggest factor, of course, is how this political class mollycoddles the voter base of unions. New Delhi has allowed the airline to run on a bloated labor force, and offers that labor force unimaginable perks. For instance, current and former employees—and their family members—can travel for free to many destinations in business or first class, though the airline has recently said it's curtailing this perk. Private airlines experience their share of union strikes, but are usually able to arrive at a reasonable compromise. Air India's workers, like public-sector employees in any part of the world, know they're negotiating against deep taxpayer-funded pockets.

The Congress-led government has had no qualms further softening the carrier's budget constraints. The annual budget late last month announced a bailout of 12 billion rupees, the second in two years. In 2010, the government infused 20 billion rupees worth of equity to keep the airline flying. It didn't help.

The only way to save Air India is to privatize it. The longer New Delhi waits to sell off this asset, the more unions—and political interference in general—will bleed it.

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